



August 30, 2006

The Honorable Charles Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Drive
Columbia, SC 29210

Re: Docket No. 2005-1-E
Study of Progress Energy Carolinas, Inc.'s Fossil Fuel Expenses

Dear Mr. Terreni:

Progress Energy Carolinas, Inc. ("PEC" or the "Company") is in receipt of the "Study of Progress Energy Carolinas, Inc.'s Fossil Fuel Expenses" prepared by the Office of Regulatory Staff ("ORS"). After a thorough review of the Study, PEC offers the following comments to the Commission. These comments should be reviewed in tandem with the Study.


The Company's comments are focused on the recommendations found at the conclusion of the Study and will be addressed in order of those recommendations.

- I. The Company has and will continue to consider cost and reliability to be essential factors to include when determining the level and percentage mix of spot purchases.
- II. The Company has and will continue to purchase coal from suppliers and/or transporters who are not the least cost option only as a last resort and when supply or transportation-related problems threaten the reliability of a PEC generating plant.
- III. The Company has sought the advice of counsel in evaluating the potential legal remedies against the railroads and suppliers for failure to perform and will evaluate its options on a continuing basis.
- IV. The Company has not traditionally entered into financial hedges for coal supply due to the illiquid nature of that market, but will continue to monitor the market for financial hedging opportunities.

- V. The Company has rebuilt its inventories and will periodically assess its inventory position and react accordingly.
- VI. The Company regularly evaluates and categorizes the types of generation necessary to satisfy its future capacity needs and will continue to do so.
- VII. PEC will continue to provide the ORS with its annual updated fuel forecast and Monthly Over/Under Cumulative Recovery Report. The Company will begin providing notices of significant cumulative recovery and fuel cost trends and the monthly FERC Form 423. The Company will report to ORS and make available any industry solicitation for coal.

THIS DOCUMENT IS AN EXACT DUPLICATE, WITH THE EXCEPTION OF THE FORM OF THE SIGNATURE, OF THE E-FILED COPY SUBMITTED TO THE COMMISSION IN ACCORDANCE WITH ITS ELECTRONIC FILING INSTRUCTIONS.

Sincerely,

A handwritten signature in black ink, appearing to read "Len S. Anthony", with a large, sweeping flourish at the end.

Len S. Anthony
Deputy General Counsel - Regulatory Affairs

LSA:mhm

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